



ePayroll Policy Brief

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Executive Summary

“ePayroll” is a term used by the government to refer to the sharing in digital form of the detailed payroll data of all workers with the government immediately every time organizations process that information. The stated objective of this initiative is to significantly reduce the administrative burden on employers, to improve the worker experience, and to provide the government with authoritative real-time employment information to improve decision-making. The federal government would also use real-time payroll data to more effectively and accurately deliver programs to Canadians.

The National Payroll Institute (“the Institute”), as an expert advisor to the government and a dedicated advocate for the payroll profession for over 40 years, has successfully collaborated with federal and provincial governments on reducing red tape and related costs borne by employers. Helping to shape the government’s ePayroll initiative is an appropriate way to continue this mission in a period of rapid change in government policy, and the accelerated adoption of digital technology.

Following years of research, analysis and consultations, the federal government has made the development of an ePayroll system a priority. While this was initially intended to provide a means for examining how to improve the delivery of the Employment Insurance (EI) program, the federal government now recognizes ePayroll as a means to enhance various other programs, services and the administration of legislative requirements that rely on payroll data.

To roll out a national system that meets the needs of government, employers, and employees, there are key considerations and challenges that the federal government will need to address; such as:

1. Any lack of harmonization between government departments and between provincial/federal governments can hinder the project’s success.
2. Government execution will need to be kept at a high standard to avoid early disappointment and loss of support.
3. Solutions appropriate for large, sophisticated employers would be completely inappropriate for smaller, less technology-enabled ones.
4. Any project related to payroll data must consider the sensitive nature of the information and must not put personal information at risk. The complexity of secure management of the massive data set involved, including ongoing revisions by employers, would demand expert execution by the government.
5. Consider carefully international best practices in comparable countries such as the UK, Australia and New Zealand while recognizing these countries’ needs may differ from that of Canada.

To address the aforementioned challenges, the Institute offers the following guiding principles:

1. Government must speak with a unified voice, both within federal departments and across provincial/territorial boundaries.
2. Ensure ongoing engagement with key sector leaders (i.e., employers, workers, service providers, and associations that represent them).
3. ePayroll must benefit both employers and workers.
4. Employer transition and operational costs should be acknowledged by the government upfront.
5. Public buy-in is essential.
6. Pilot, then proceed in a phased implementation.

What's ePayroll?

ePayroll is a term used by the government to refer to the sharing in a digital form of the detailed payroll data of all workers with the government immediately every time organizations process that information. The stated objective of this initiative is to significantly reduce the administrative burden on employers, to improve the worker experience, and to provide the government with authoritative real-time employment information to improve decision-making.

The Canadian Government is interested in re-imagining the employer/government data interface using contemporary digital technology to achieve the important objectives outlined. It has lagged in the application of digital technology, and the opportunity to reduce the regulatory burden and employer costs while improving outcomes for workers and government itself is significant. ePayroll is viewed as the potential key enabler of a modernized benefits delivery infrastructure.

Key Challenges

Payroll has long been burdened by requirements to take information already housed in payroll systems and transform the data to meet government remittance and reporting demands — such as the preparation of Records of Employment. This is a significant cost to employers and compliance has recently been calculated to be more than half of the total work effort of payroll professionals in Canada.

The successful execution of this project involves addressing a number of significant challenges which must be reflected in project planning to achieve a successful transformation:

1) Scope and scale of the project across multiple jurisdictions

The scope and scale of the ePayroll project are massive. It would impact every employer and every worker in Canada, and the delivery of some of the most important and visible government benefit programs. The sheer volume of data would be enormous, roughly equivalent to the amount of information submitted at year-end being received every two weeks. According to the National Payroll Institute's 2021 Advocacy Survey, 63% of employers process their payroll bi-weekly, 19% semi-monthly, 13% monthly, and 13% weekly (employers could use more than one pay frequency depending on employee class, collective agreements and other arrangements).

Beyond being one of the most complex technology projects ever undertaken by the government, it would also involve fundamentally re-engineering the processes by which workers access benefits, and how government delivers them. The change management project for employers and workers, and inside government, would be similarly massive.

Considering the array of federal agencies and departments and taking into consideration the separate requirements of provinces and territories, cross-jurisdictional and cross-departmental

harmonization would be essential to success. This is an area where the government has struggled historically.

2) Government execution would be key

As government benefits become more tightly integrated with real-time payroll information, the relationship between government and workers could be expected to change, and the performance of the government in the delivery of services would gain importance and visibility. Scrutiny during any transition period would be very high and execution would have to be at a very high standard to avoid early disappointment and loss of support.

3) A diverse employer and worker universe

The employer community covers a very wide range of organization types, sizes, and abilities. Solutions appropriate for large, sophisticated employers would be completely inappropriate for smaller, less technology-enabled ones.

Relationships between employers and workers also vary greatly, with a new focus on contract and “gig” working arrangements. These need considerations if the government is expecting to expand benefits programs to include workers of these types. A solution needs to support next-generation policy design and regulatory simplification that allows for the successful implementation of new tax legislation and EI benefits modernization tied to payroll reporting.

4) Data ownership, privacy, and security

Personal information includes individual payroll data, which is currently shared with the government by employers as governed by legislation. Upon contractual consent, this data may be shared directly by the employer’s payroll service and software provider (PSSP), for example, through automated Records of Employment and T4 Information slips. Providing payroll data to the government each pay period will require consent, which has major implications for PSSPs and employers.

Any project related to payroll data must consider the sensitive nature of the information and must not put personal information at risk. Public buy-in is essential and could best be achieved by making clear the rights of workers and responsibilities of employers and government, regarding access to information.

The complexity of secure management of the massive data set involved, including ongoing revisions by employers, would demand expert execution by government. Historically, in part because of relatively frequent processing cycles, employers have found it necessary to adjust information from prior periods. These changes will have to be synchronized with any external data files.

5) Carefully consider the experience in other jurisdictions

Other countries including the United Kingdom, Australia and New Zealand have introduced transformative approaches to managing the flow of information between employers and government with the objective of achieving process simplification, reducing administrative burden for employers, and an improved beneficiary experience. These examples need careful review, and the distinctive features of the Canadian situation need to be considered. These include:

- The Canadian federal environment involves multiple regulatory authorities and two official languages.
- Pay frequency in Canada is usually weekly, bi-weekly, or semi-monthly. The default frequency in other jurisdictions is often monthly. Processes that are reasonable to execute monthly may become more onerous if required on a weekly basis.
- In part because of the higher frequency, payroll is not usually fully audited and reconciled each cycle, although key controls are exercised. The provision would need to be made for the adjustment and updating of prior period information.
- An unusually high percentage of payroll processing in Canada is managed by a small number of sophisticated service providers which already have access to their clients' digitized payroll data. There might be an early opportunity to obtain access to significant amounts of payroll data and to significantly simplify implementation if these providers could be incorporated into a project strategy.

Principles

The following guiding principles have been developed to support discussions among the National Payroll Institute, its members, and the government to explore the key implementation issues and implications of an ePayroll system in Canada.

1) Unified government voice

Government must speak with a unified voice, both within federal departments and across provincial/territorial boundaries. This includes the need to harmonize the technology used and processes deployed (including data coding standards¹) so that employers are not burdened with duplicated activities.

2) Engage key sector leaders

The project should be co-created with employers, key employer associations, and PSSPs through their expert representatives, including the National Payroll Institute.

A digital payroll solution that leverages current PSSP technologies would reduce administrative burden by eliminating the need for forms or processes that are currently in place to compile payroll data after it has been manipulated to fit the different reporting logic of various forms. Reliance on un-manipulated, natural payroll information improves the data quality and integrity, by reducing/eliminating human error caused by misinterpretation of current reporting requirements.

PSSPs now manage about half of the payroll data that is ultimately reported to the government, which is an unusually high percentage relative to other countries. In addition to having the data that government desires access to, they also have extensive experience in managing the government/employer interface, since that is part of their core business and in-process change management in a diverse client base.

3) Benefits employers and workers

Processes should be designed so that the work of analysis and interpretation is done by those who are experts in an area. If government and employers have exactly the same information, then it should be a government that analyses the implications of employment data for their programs, and not employers, as is currently the case (e.g., for Employment Insurance reporting). This has the potential to eliminate a great deal of error and delay in allowing workers to access benefits.

¹ T4 and RL-1 forms and their summaries report data based on a “paid in period” logic, whereas the Record of Employment (ROE) requires some data to be reported on a “paid in period” logic, and other data to be reported on a “with respect of a period” logic, both on a single form.

Workers and beneficiaries should realize faster and more reliable delivery of benefits through the expedited determination of program eligibility. They should also have a single point of access to view information submitted on their behalf by employers.

4) Implementation of cost transparency

Beyond the direct government project costs, employer transition and operational costs should be acknowledged by the government upfront. These costs would include the development and training on new processes, and costs from various vendors to provide the necessary software and services to operate them on an ongoing basis. These costs could be partly offset by reductions in employer compliance requirements (e.g., eliminating the need for employers to complete Records of Employment).

Significant upfront transitional costs for employers and development costs for PSSPs will need to be carefully quantified and offset to some degree through existing mechanisms (e.g., technology tax credits, accelerated write-offs) or new ones.

5) Public buy-in is essential

Develop a transparent program design and review process to build support, ensure that project benefits are clearly articulated and that challenges are acknowledged and addressed.

Transparent program design that considers all stakeholders will assist in making the initiative a more successful one. By recognizing the challenges and addressing stakeholders' concerns, the federal government will be able to garner greater public buy-in.

6) Pilot, then proceed in a phased implementation

The scope of the initiative, and the potential impact on the broad Canadian economy, call for a carefully phased pilot and implementation plan. Through a phased implementation, the government can assess for early wins to leverage those employers and sectors that are best able to move ahead quickly.

Appendix A:

Timeline on Development of an ePayroll Solution

As part of its commitment to improving service to Canadians, the federal government launched the EI Service Quality Review (SQR) in 2016, which sought input from Canadians and stakeholders on ways to improve the delivery of EI programs and services, which are built on a 50-year old system. At that time, the National Payroll Institute provided input on the need to improve efficiencies and reduce red tape, including eliminating the requirement for employers to produce millions of Records of Employment each year that are not used for EI claims.

In 2017, the SQR panel published their [EI Service Quality Review Report](#), which included a recommendation, “that Service Canada engage key stakeholders in the co-creation of a real-time payroll information-sharing solution.”

Following the release of the SQR report and the recommendation above, the National Payroll Institute advised the federal government that employers and their payroll service and software providers (PSSPs) must be included as key stakeholders in developing any such payroll information sharing solution.

Then, in 2019 the federal government committed to exploring the development and implementation of an ePayroll system under the leadership of the Minister of National Revenue, who is responsible for the Canada Revenue Agency (CRA). This commitment was received in a mandate letter from the Prime Minister to the Minister which instructed her to, “Work with the Minister of Families, Children and Social Development and the Minister of Digital Government to implement a voluntary, real-time ePayroll system with an initial focus on small businesses.” Under an expanded scope for the initiative, the CRA was given the responsibility of leading the government’s ePayroll project.

Also in 2019, the Institute provided input on digital payroll systems to Revenu Québec (RQ) as part of discussions on modernizing payroll data collection systems. Although Quebec has its own tax base and collection agency, employers would be unfairly penalized by the costs of maintaining two distinct payroll data-sharing platforms. The National Payroll Institute has strongly encouraged RQ and the CRA to work together to harmonize their approach and timelines.

Since the onset of the pandemic in 2020, with COVID-19 related financial aid programs taking centre stage, the government’s interest in developing an ePayroll solution appears to have accelerated. Access to accurate and timely payroll data would have facilitated the delivery of financial aid programs, reduced confusion for workers by offering a more automated application process, reduced fraud, and been more efficient for employers, as evidenced through our multi-jurisdictional research on the impact of COVID-19 on payroll (report to follow).

Supplemental ministerial mandate letters issued in January 2021 following the pandemic-centred Speech from the Throne, reinforced the need for benefits delivery modernization, access to data, and ePayroll. In his follow-up letter to the Minister of National Revenue, the Prime Minister provided the instruction to, “Improve the collection and analysis of disaggregated data related to supports and services offered by the CRA.”

Most recently, Employment and Social Development Canada (ESDC) advised the Standing Committee on Human Resources, Skills and Social Development and the Status of Persons with Disabilities that the federal government is moving ahead with a major transformation of the EI program — both from the policy and technology delivery perspectives. This is another indication of the priority the federal government has placed on ePayroll. In April 2021, the Federal budget committed to \$43.9 million for the development of an ePayroll system prototype.

The importance of ePayroll cannot be understated given its far-reaching implications for payroll professionals. The National Payroll Institute will be at the table to ensure payroll expertise is taken into consideration.